Reagan 'recovery' leaves one-third of nation in poverty

by Carol Cleary

In the June 15, 1985 *Quarterly Economic Report, EIR* presented a survey of the real situation confronting the American consumer. At that time, we documented a continuing attrition in standards of living amounting to a collapse on average of 40%—if it were taken into account that the one-wage-earner family of the 1950s was being replaced by households which could only be sustained by two or more working adults, fast losing the capability of reproducing themselves—that is, becoming childless.

At that time, we took the Labor Department's own estimates of the weighted proportionalities of household market-basket expenditure, and compared these to the actual cost of the items in question—rent, food, etc.—to find the unlikely figure for a moderate family income, by the government's own standards, of $60,000 before taxes needed to feed a family of four. This, of course, in no way represented the reality of 1985.

But what of today, after 18 more months of the "Reagan recovery"? Today, we see conditions in which one-third of the nation lives in real poverty, comparable to the poverty of the "one-third of a nation" which President Roosevelt deplored as ill-clad, ill-fed, and ill-housed. In the United States, in the year 1986, Americans were again lining up at soup kitchens and food pantries as their only alternative to slow starvation!

Worse still, the present great depression has clearly not bottomed out. If the Reagan "prosperity" continues much longer, we shall see a collapse of far greater proportions than the depression of the 1930s, as the very fabric of society unravels. A new wave of industrial layoffs makes the point. Symptomatic are the just-announced 30% cutbacks in the workforce by AT&T, from a payroll of 374,000 people in January of 1984 to 274,000 in the post-holiday season; the USX lockout which has gone on since July; and GM's plans to lay off 100,000 workers in the near future.

This pattern of industrial layoffs has resulted in the de facto substitution of service for industrial jobs, as the service sector has mushroomed parasitically to dominate the economy. In some instances, these new jobs offer wages at only one-

Unemployment lines in New York City. Now not only industrial jobs are being terminated, but workers in the "service sector" are also being laid off.

half the level of those which have been lost; and this has been coupled with the reduction of the hours of employment from full-time to part-time.

But a phase shift has now occurred. Layoffs in major industries—factories which sustain the economic life of the towns in which they are situated—have a multiplier effect on the whole economy. For every industrial job lost, estimates range, from two to six service jobs are lost, too. Under these circumstances, even the present precarious existence of that one-third of the U.S. population will be threatened—while the rest of the nation is pauperized. The implications of such a phase shift are obvious and intolerable.

The condition of one-third of the American nation is a reality which President Reagan would sweep under the rug were he able, but it is a reality to be viewed with a *caveat* in mind: Unless we have a rapid shift in basic economic policy, *this is only the beginning*.

BLS statistics a hoax

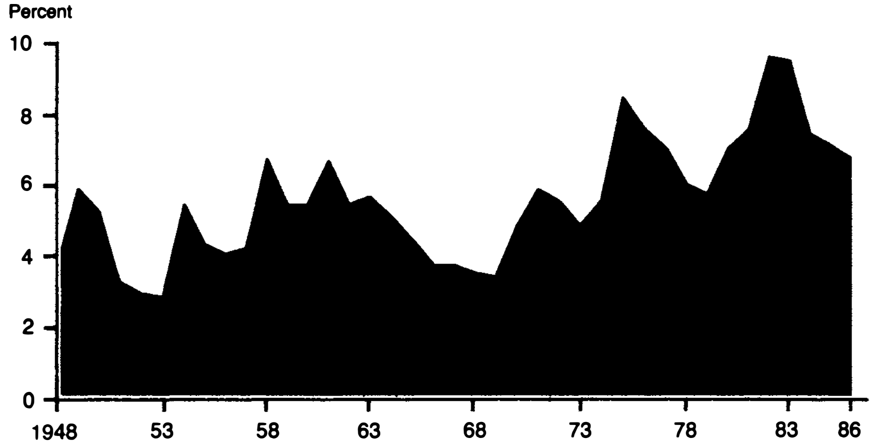
The good news about the "Reagan recovery" is that the official Bureau of Labor Statistics' unemployment rate is down 2.7%, from its all-time high of 9.7% in 1982. The bad news is that the figures are a fraud. They represent displacement of the workforce into low-pay, low-benefit jobs, and involuntary part-time jobs. They represent personal credit-card debt, jobless workers without unemployment benefits, hungry persons without food stamps, underemployed and unemployed workers seeking food charity, homeless persons, and rapidly growing poverty.

A lot of objections can be made to the use of the Bureau of Labor Statistics (BLS) rate of unemployment. It excludes discouraged workers, and civilians not currently in the labor force who want jobs, such as youth who have never found jobs during today's Reagan "recovery." The BLS employment statistics count anyone as employed who worked during a given month, or for any length of time during any week—even though the same person may be only temporarily employed.

For example, the BLS unemployment rate for 1984 was 7.5%, but the BLS incidence of unemployment (those who were unemployed at some time during 1984) was 17.4%. For both rates, it counted as employed a person who worked one or more hours in a week! It also greatly skewed the unemployment rate by counting part-time workers as if they were employed full-time, including those who worked part-time only because they had failed to find a full-time job.

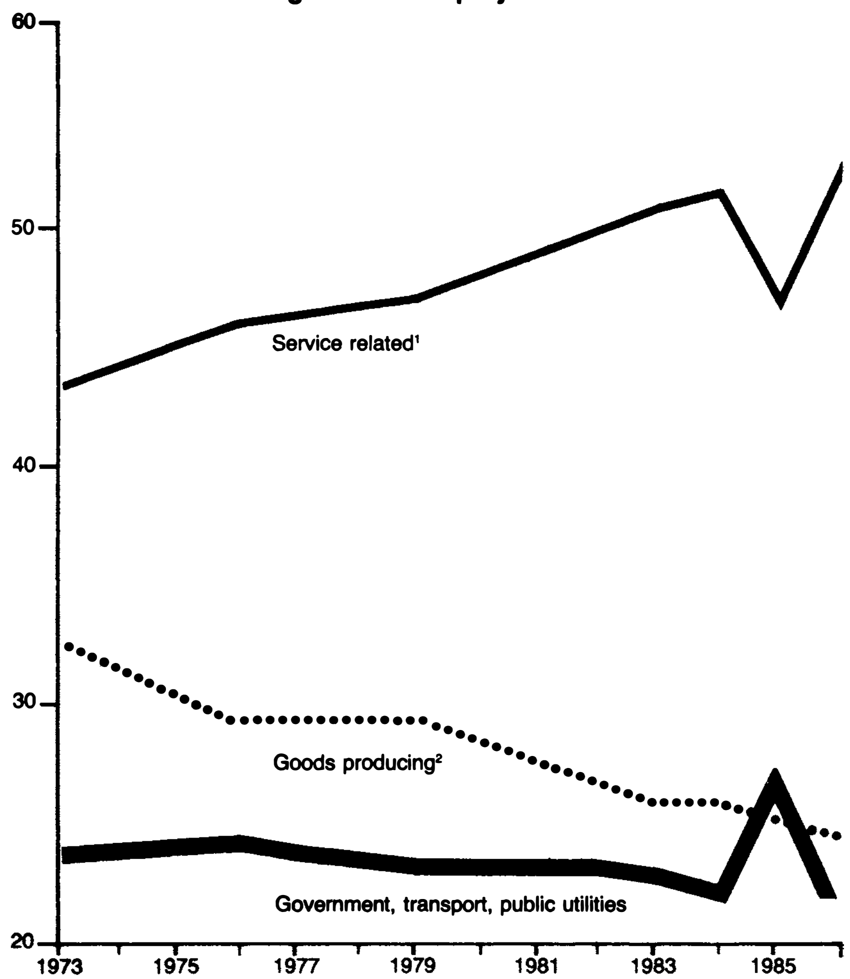
In September 1986, over 20% of the civilian workforce (24 million workers) worked fewer than 35 hours a week; the

Figure 1
Unemployment rate, 1948-1986



Source: BLS

Figure 2
Percent of total non-agriculture employees



1. Wholesale and retail trade, services, finance
2. Manufacturing, mining, construction

average was about 21 hours a week. This includes the underemployed, such as the blue-collar worker, often with a large family, who has, of necessity, taken a low-paying job in the service industry. He is considered fully employed, even though his family's market-basket has now dropped from middle class to poverty level.

A graph of BLS unemployment rates since 1948 looks like a roller coaster ride (**Figure 1**), with the Reagan recovery showing an especially thrilling descent from the 1982 heights of unemployment.

Figure 2 tells the story very simply, except for 1985, when there was a sudden temporary surge in government jobs. Service-sector jobs have been steadily increasing as a percentage of the total non-agricultural workforce since 1973, while goods-producing jobs, by all measures, have been steadily decreasing. During 1986, the trend steadily worsens. Since the end of 1985, 95% of net new jobs (1.2 million out of 1.3 million) were in the health services, business services, or retail trade. For September of 1986, the average weekly paycheck for health and business services was $266, and for retail trade $176—50% less than manufacturing.

Displacement into part-time jobs

Part-time employment, especially temporary employment, is a large part of the "Reagan recovery." Temporary manpower agencies are the third-fastest-growing business in the economy. More than six out of every ten workers who took a part-time job between 1979 and 1985, wanted a full-time job.

But worse, as the average blue-collar worker was displaced from a high-paying job with good benefits in manufacturing, his wife was forced to also work part-time to make ends meet. Sixty-two percent of those part-time workers were employed in the wholesale and retail trades, or in the service sector.

According to a November 1986 study released by the Council on International and Public Affairs, 49.4% of total private-sector jobs (41.2% of the total workforce) have an average pay scale within the poverty zone defined by food stamp guidelines (130% of poverty). As of June 1986, average weekly earnings in the wholesale trade were 93.4% of the average weekly earnings in manufacturing. Insurance, real estate, and finance earnings averaged 75.3% of manufacturing; retail trade averaged only 46.5% of manufacturing; health services averaged 84.1% of manufacturing; and business services averaged 66.5% of manufacturing. As of September 1986, in the retail trade, average weekly wages were only 44.1% of manufacturing.

Moreover, average retail weekly wages relative to manufacturing wages have declined steadily: In 1962, they were 63.1% of manufacturing, but in 1980, only 51%. Since the new jobs available for displaced workers are primarily in the retail trade and service sectors, the combined income of the average 1.6 family members working in this post-industrial nightmare called a restructured economy, cannot even approximate the income-equivalent of the single blue-collar breadwinner of days gone by.

The result is that one in five American children now grows up in a family below the poverty line, in need of private charity, particularly at the end of the month, when underemployed families, now roughly one-third of the working population, show up at soup kitchens and food pantries, or simply go hungry so that they can pay other bills. This need is growing so fast that private distribution networks have no possible means of keeping pace.

In 1955, some 60% of all households consisted of a working father with the mother at home raising the children, maintaining a perhaps banal, but respectable, cultural standard. By 1980, only 11% of all households met this standard; by 1985, only 7%. The children are left on their own to watch television, videotapes, or play computer games, susceptible to the media behind the cultural degeneration that has swept the country. By 1983, 8.7 out of every 100,000 children age 15-19 were committing suicide, compared to only 3.6 per 100,000 in 1960. The divorce rate in such distressed homes has skyrocketed. In 1970, before the 1973 push into a post-industrial economy, only 10.7% of children lived in single-parent homes. By 1983, just 13 years later, 20.0% did. The U.S. Census Bureau claims that 59% of children born in 1983 will be living in single-parent homes by the time they reach the age of 18.

Pauperization of the workforce

Between 1979 and 1983, 11.5 million adult workers, of a total civilian workforce of 113.5 million by 1983, were displaced from their jobs due to a company's going out of business, a plant closing, or an indefinite layoff that became permanent. A recent BLS survey indicates that during the 1979-83 period, one of every seven adult workers was displaced. Two-thirds of these displaced workers were blue-collar, and one-third was white-collar (**Figure 3**). The Southeast, North Central, and Mid-Atlantic areas were hit the hardest by displacement.

The average pay of a job lost was $444 per week, 36% above the national average, but the average pay of jobs gained was $272 per week, 16% below the national average. New jobs—in the retail trade and the service sector—paid an average of $172 less per week, or 40% less than the jobs workers had held previously. Even low-wage manufacturing jobs, like textiles and apparel, pay more than many of the low-wage service jobs created in this period.

So, for example, for every apparel industry job lost, one-and-a-half hotel jobs were created at 67% of the weekly wage. Of those dislocated workers who managed to find new jobs, only one-third—mainly the highest-skilled professionals—was eventually able to find jobs with equivalent weekly earnings.

Looking at weekly wages before and after displacement,

Figure 3
Displacement by industry, 1979-1984, and percentage of total labor force accounted for by each industry, 1979

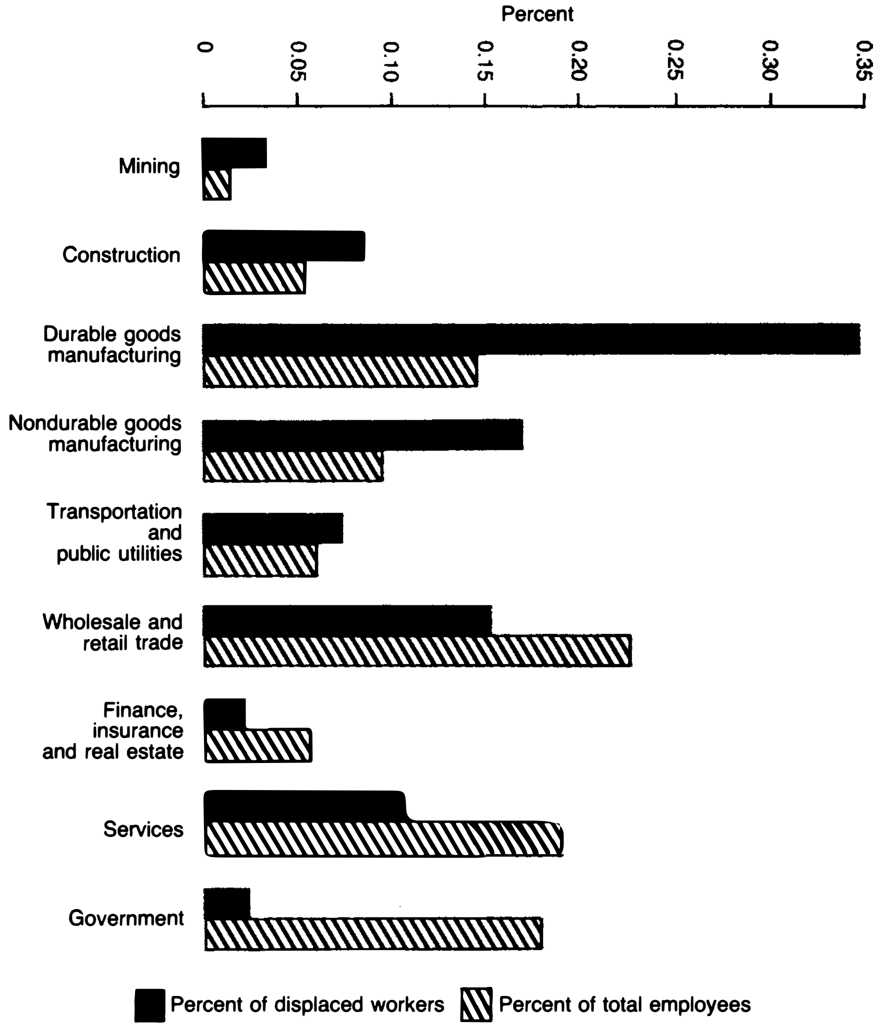
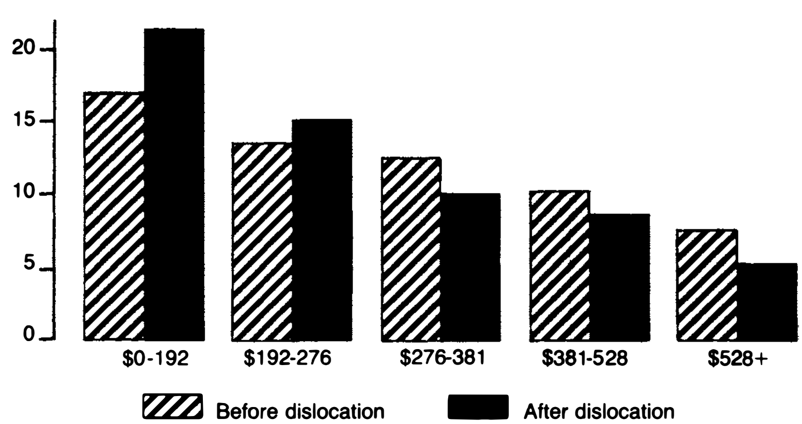


Figure 4
Workers' weekly wage levels before and after dislocation



one sees the tragic story for the average American working family trying to make ends meet (**Figure 4**). Before 1973, when the United States had a policy of industrialization, average gross weekly earnings in constant 1985 dollars grew. But after 1973, as the oil hoax ushered in post-industrial policies in the United States, average gross weekly earnings have continued to fall almost constantly (**Figure 5**).

If one compares the percentage of low-, middle-, and high-income jobs available from 1973 to 1985, it is clear that the U.S. economy is no longer able to sustain a middle class. Of 22.2 million adults at or below poverty level, 9.1 million worked; 2.1 million of those worked full-time for the full year, yet were still not able to escape poverty. Hence, close to half are "working poor."

Part of the problem here is that the minimum wage has not kept pace with inflation. During the 1960s and 1970s, a head of household working at minimum-wage levels generally earned enough to keep a family of three from poverty. However, today's minimum wage provides a full-time, full-year wage-earner with a yearly income of only $6,968; the poverty level for an individual in 1986 was about $8,827!

In 1985, 14% of the U.S. population was at or below poverty level in income. Currently, poverty level is defined as an annual income of $10,989 for a family of four. The 14% of the population at or below poverty level is the highest ratio since 1966, except 1982-84. The Reagan "recovery" leaves the average citizen in a condition of poverty greater than in any so-called non-recession year in two decades! Of all children less than 17 years old, 20.1% live in poverty, 40% higher than in 1973.

No benefits for the unemployed

Fewer and fewer of the unemployed workforce are actually receiving unemployment benefits. The average length of time a worker remains unemployed increased 34% from 1969 to 1979, and an additional 45% from 1979 to 1985, generating a total increase of 79% from 1969 to 1985. But while the period of job loss has increased due to the collapse of many industries, the number of unemployed workers receiving benefits has dropped from 67.2% in 1975 to 32.5% in 1986 (**Figures 6a and 6b**). Ironically, a person may lose a lower-skill, less-secure job, which he had found to replace his original blue-collar job, and not have worked long enough to qualify for unemployment, based on the more recently acquired job. In fact, as the Reagan recovery deepens, and more and more manufacturing jobs disappear, these people, if they are more skilled, may bump a less-skilled worker out of his service-sector or retail-trade job. Then, as the less skilled get bumped down the skills ladder, the least skilled become, after exhausting unemployment, welfare, etc., the homeless. As the Reagan recovery deepens, homelessness has begun to rapidly increase.

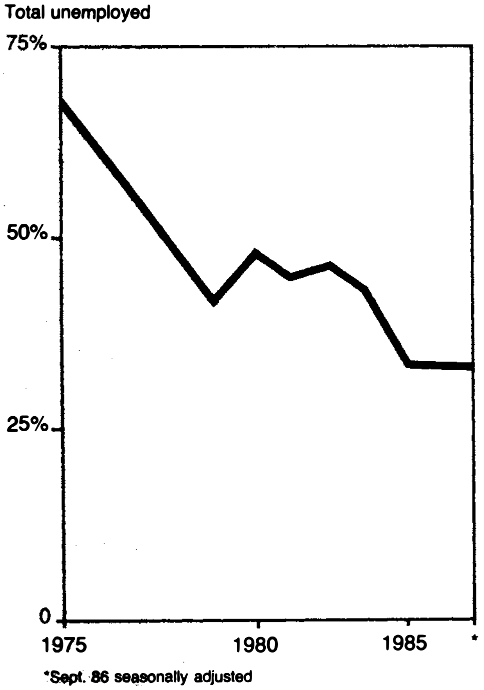
Although the current administration has been toying with the California and Massachusetts models of training people on welfare to put them to work, in reality, federal expenditures for worker training have decreased dramatically, from $11,246 million 1986 dollars in Fiscal 1981 to $5,641 million 1986 dollars in Fiscal 1986.

The minimum wage, in fixed 1985 dollars, reached a high in the late 1960s of $4.95 per hour, but, except for a brief period of relative stability in the late 1970s, has been falling

Figure 5
Average gross weekly earnings, 1960-1985
Dollars (1985)

Source: BLS

Figure 6a
Total receiving unemployment benefits



fairly steeply ever since (**Figure 7**).

The actual value of major benefits for the poor, such as Aid to Families with Dependent Children (AFDC), which averages in most states about $212 per month, has declined, in constant 1970 dollars, 33% over the 1970-86 period. But at the same time, the cost of housing and utilities has increased 161.7% (1973-85). It has thus become virtually impossible to survive honestly on welfare, without entering, in one way or another, the growing underground economy related to unreported job income, sales of illegal drugs, child pornography, and the like.

As Gramm-Rudman and the other current budget policies further squeeze federal support for most of these "safety nets," the federal government has increasingly tried to shift the burden of supplying food stamps and unemployment and welfare benefits onto state and local governments; however, these have a tax base that is shrinking fast, and face less federal support in exactly the areas where the need for a safety net is greatest.

Food assistance inadequate

After various scandals about food stamp fraud, which resulted in the federal government's withdrawing funds from states who exceed a certain food stamp error rate, state food stamp agencies have become so fraud-conscious that they routinely take people off food stamps for no apparently legitimate reason, forcing them to reapply, and go through the laborious bureaucratic mill after missing food stamps for a certain period. Fraud consciousness and the numerous and constant changes in regulations, have made state agencies supersensitive about waiving many technicalities that automatically exclude needy persons (**Figure 8**).

Figure 6b
Comparison of unemployment measures

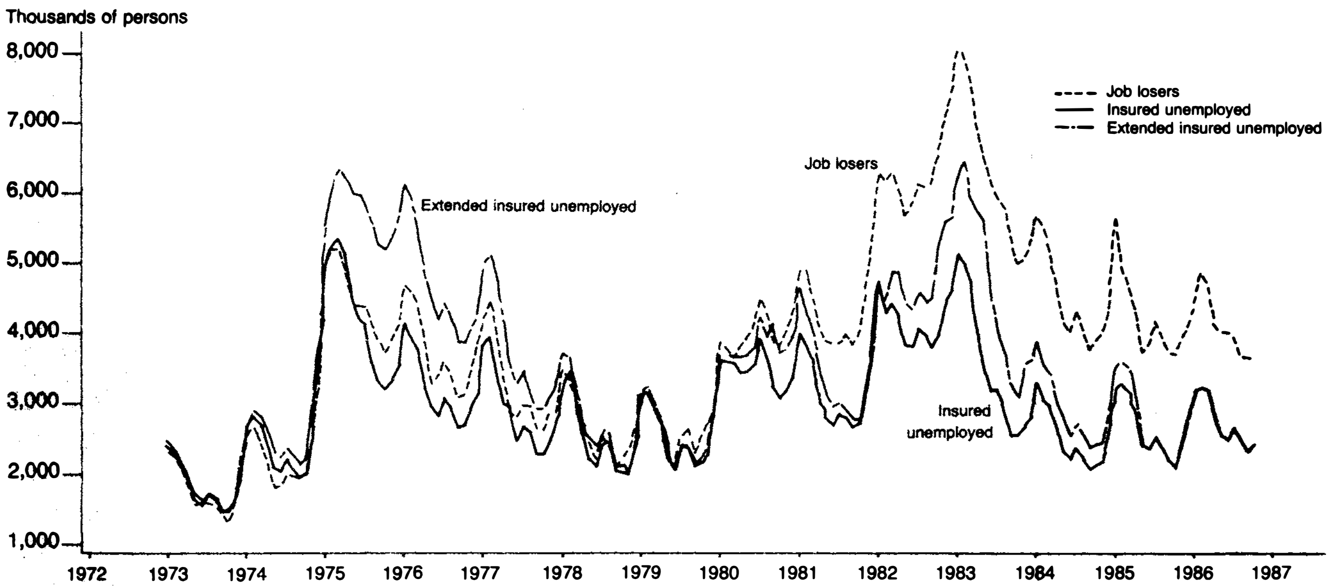
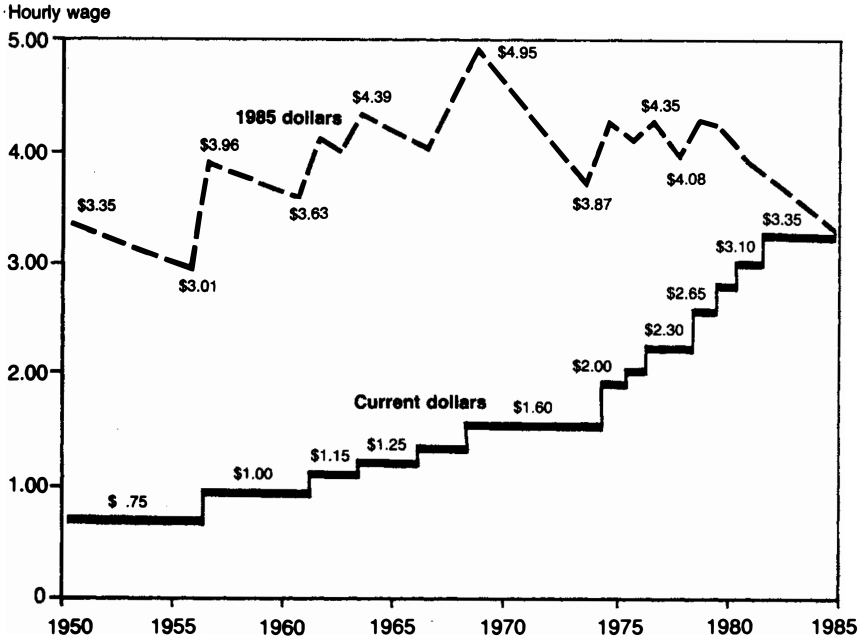


Figure 7
The real value of the minimum wage



Source: U.S. Bureau of Labor Statistics

For example, a farmer whose farm is going under, because he has fixed assets in his farm equipment, is automatically disqualified from food stamps, just as he doesn't qualify for unemployment (he's self-employed). The result of these disqualification policies is that, while many people do use food stamps, this number is still a very small percentage of those in actual need, as one looks at the vast numbers of Americans who are in the 130% of poverty range.

Private food pantries estimate that many underemployed working families in the 130-150% of poverty range—officially too high to qualify for food stamps—cannot feed their families properly at some time during the year, usually at the end of each month as bills come due. These people may not need the same level of food stamp support that the average food stamp recipient needs, but it would be far cheaper to provide partial food stamp support than to set up food distribution networks.

Many communities are now faced with an overwhelming need for emergency food assistance, as underemployed, poor working families, most of which do not qualify for food stamps, begin to face periods of poor nutrition at the end of the month when the food budget is sacrificed to try to pay bills. The U.S. Conference of Mayors has noted a trend confirmed by private food charity networks: Soup kitchens, food pantries, and shelters for the homeless are faced with the needs of families of all ethnic groups, not just senior citizens, minority groups, or in the case of shelters, vagrant single adults of low job skills who have been previously institutionalized.

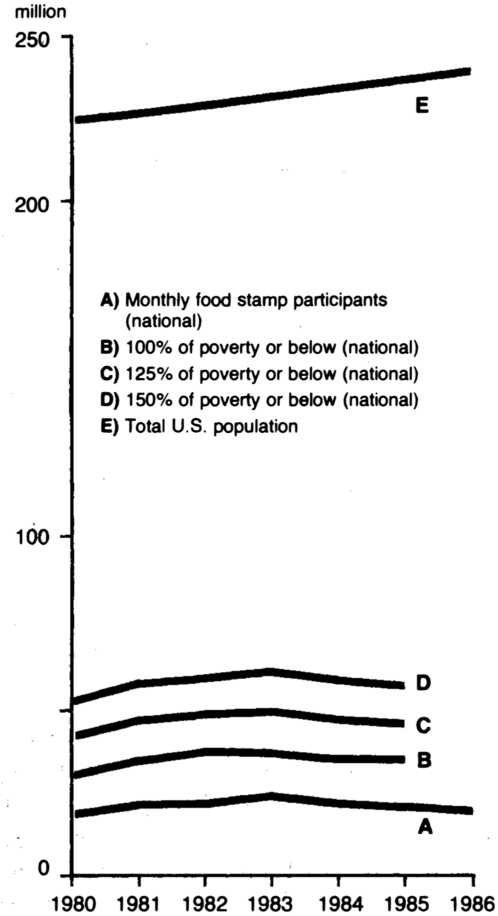
A good illustration of how fast the need for food charity is increasing, and at the same time, how unable the food bank/food charity networks are to keep up with the demand, is Houston, Texas. Houston was a booming Sunbelt town in 1982 when thousands of unemployed Detroit autoworkers arrived. The poverty rate in 1983 was 10.3% for individuals, and 8.0% for families. Houston met the challenge of helping unemployed, job-hungry Midwesterners by setting up the Houston Food Bank in 1982. It distributed the equivalent of 1 million meals (1 million pounds of food) in 1982, 2.5 million in 1983, 4.2 million in 1984, and 8 million in 1985.

In 1982, the food went primarily to unemployed Midwestern blue-collar workers. This changed as Houston lost 100,000 manufacturing jobs from 1982 to 1985. Most of the Midwesterners returned home. Now, food is distributed to blue- and white-collar Houston natives, 20% of whom are working poor, natives who lost their skilled manufacturing jobs, took service industry jobs, and now can't make ends meet.

But by 1986, food pantries were growing fastest in Houston's affluent areas. Unemployed geologists, geophysicists, and petrochemical engineers, who lost their jobs as the oil and mining industries shut down all over the country, found it impossible to relocate to find skilled jobs.

If life is bad in Houston, as the need for private food charity grows, it is worse and growing fastest in rural areas, particularly the farm belt—where most failing farmers don't qualify for food stamps, unemployment, or welfare. Many farming areas, as the local bank or township goes bankrupt,

Figure 8
U.S. population receiving food stamps



lose whatever soup kitchen or food pantry networks they have had. The despair such communities face is reflected in a report from Harvesters Community Food Bank in Kansas City, Missouri.

Overloaded with food needs among the food pantries it already supports, and unable to support any new food pantries with food, Harvesters was surprised to receive an application form from a potential new food pantry in White Moore, Kansas, 125 miles away. Had Harvesters been in a position to provide food to this new pantry seeking a source of food, it would have meant the new pantry would drive three hours each way daily to get food from its supplier food bank.

Kansas City, Missouri has a fair number of white-collar jobs: government jobs, Hallmark Greeting Cards, interstate banking, as well as auto, farming, and some oil, and only 1.2 million people. Here, Harvesters distributed 3 million pounds (3 million meals) in 1985, the net hypothetical equivalent of 1 in every 42 Kansas City citizens used food charity to make ends meet.

The Central Illinois Food Bank in Springfield serves 42 Central Illinois counties containing 2 million people, including farm communities, factories manufacturing farm implements, construction, coal, and oil. From May 1985 to May 1986, this food bank distributed 4.3 million pounds of food.

Many farm-belt food banks are reporting a steady 30-40% growth yearly. Almost all report that with a tiny expansion of support networks which distribute the food, their warehouses could easily get out double or triple the amount of food to the food pantries they currently support, without expansion of the areas they cover. In rural areas, the tragedy is that local food pantries cover a region limited by the driving distance to such pantries. Families who are near enough geographically to be supported by some pantry, receive considerably more food per capita from food banks than in hard-hit urban areas, but this food charity is all they have—no food stamps, no unemployment, no welfare. In areas where private food charity/food bank networks have collapsed, or never existed, desperate families eventually pack up everything, and head for the nearest urban area, where they join the homeless in soup kitchens and public or private shelters.

Just as in the depression of the 1930s, rumors abound that certain cities with low unemployment rates have streets paved with gold, or at least, jobs. Phoenix, Arizona has been such a legendary mecca for displaced blue-collar workers during the current Reagan recovery. Phoenix is flooded with penniless young white families, who arrive from the Midwest or East Coast, all belongings and hopes crammed into their family car. On the average, food bank networks report that these families stay in Phoenix a week or two, long enough to discover that jobs are available—but only for people with very high computer skills. Where they go is unknown—whether to relatives, back to the old neighborhood, or perhaps to the nearest urban center that will take in the homeless.

Millions a step from homelessness

As unemployment and underemployment increase, how can families afford to keep a roof over their heads? The answer is that increasing numbers of them cannot: Homelessness has increased tenfold since 1980, and is now at 3 million. Many of these homeless are families—families of working people or formerly working people, not chronic vagrants or mentally ill. More worrisome is the specter of homelessness hovering over the heads of millions of Americans who are now just barely able to make their rent payments. These families are hanging on to their apartments or houses, only because they are spending a hefty part of their income (in many cases two incomes) on rent or mortgage payments. It will not take much—a layoff or a medical emergency, for example—to knock these precariously budgeted families into the ranks of the homeless or into severely overcrowded conditions, doubling up with other families.

The official figures paint a grim picture, especially for those with lower incomes. The Bureau of the Census and the

U.S. Department of Housing and Urban Development found in its 1983 housing survey, that one out of three renters—11 million families—was paying a "burdensome" proportion of income on housing. The standard definition of "cost-burdened" is a household that pays more than 30% of its income for housing costs. In fact, the lower the income, the higher the percentage of renters paying more "burdensome" rents. Of those 2.239 million households with incomes less than $3,000, the median rent was 60% or more of the yearly income, compared to a national median of 29%. For those 6.042 million households earning $3,000 to $6,999, the median rent was 55% of yearly income, and for those 3.297 million households earning $7,000 to $9,999, the median rent was 39% of yearly income.

The same 1983 housing survey reported that there are 5 million families living in inadequate or crowded housing: 13.8% of renter-occupied units were inadequate and 4% were crowded; for owner-occupied units, these figures were 6.2% and 1.9%. The definition of inadequate was determined by such factors as cracks or holes in the walls, ceilings, and floors, and the lack of working plumbing and heating.

Since the Reagan administration took office, the housing situation for low-income families has gone from bad to worse. In 1980, according to a March 1986 study by the Low Income Housing Information Service (LIHIS), there were 7.14 million renter households (of a total 28.6 million renter households) earning 50% or less of the median renter income. There was a gap of 1.7 million units between these low-income renter households and the number of affordable housing units (defined as renting at 30% of income). After five years of the Reagan administration, this figure skyrocketed 120%; in 1985, there was a shortage of almost 4 million affordable housing units. Thus, in 1985, there were more than 8 million low-income renter households (of a total 32.6 million) that needed rental housing at or below $184 month, in order to maintain a 30% rent-to-income ratio. Yet, in 1985, only 4.2 million units rented at or below this level, leaving an "affordable housing gap" of almost 4 million units.

LIHIS extrapolated the trends over 1980-83 to obtain the results for 1985. The study used as its definition of low-income those households earning *one-half or less of the median renter income*. In the five Reagan years, there was a 14% jump in the number of households in the lowest quartile of all renters. In 1980, this was 7.14 million households earning $5,666 or less. In 1985, this figure was 8.15 million households earning $7,366 or less.

By 1985, all 50 states had a shortage of affordable rental housing for low-income tenants, compared to 1980, when 10 states had more units renting at an affordable price than needed for that state's low-income population. California, with the largest gap, has 3.6 times as many households in need as there are affordable units available—a gap of 789,406 units. The state with the smallest gap is West Virginia—but that is very misleading.

It should be stressed that these figures do not take into account the quality of these "affordable" housing units, simply the affordability of the rent. In West Virginia, for example, where the gap is less than in any other state, a good many of the affordable units are probably mobile homes or shacks. In the inner cities, the affordable housing would probably be slum housing.

The 4 million low-income households in the "affordable housing gap" are, by definition, just one step from homelessness. The data from a December 1986 U.S. Conference of Mayors survey of 25 cities makes this plain: Officials in New York City, for example, stated that one-fifth of the homeless families housed by the city had been evicted for nonpayment of rent or overcrowding. In other cities, the fact that AFDC welfare payments covered only a percentage of the actual rent, not the full rent, was cited as a contributing factor to homelessness. Many cities cited the "increasing costs of living" as a factor, San Francisco, in particular. San Francisco also noted, "There has been a steady increase in the number of persons whose 'benefits' have expired (e.g., unemployment insurance)."

Nineteen of the surveyed cities said that the lack of affordable housing was the main cause of homelessness, noting that not only has the cost of housing significantly increased, but that many low-cost units have been demolished or lost to "gentrification."

The Mayors survey noted that in all but three of these cities, the demand for assisted housing by low-income households had increased by an average of 40%. Right now, subsidized housing is available in these cities to fewer than one-third of the eligible low-income families. In most of the cities surveyed, the waiting lists for assisted housing are closed. None of the surveyed cities expect to be able to meet rental housing needs, as a result of the decline in federally assisted housing programs.

The National Association of Homebuilders assessed the federal government's shrinking role in housing in a recent study, and concluded that this could lead to "social unrest that would pose additional problems for the nation": Carol Anderson, writing in the Association's journal, *Builder* ("Poor Face Mounting Housing Crisis," February 1986, p. 82), stated:

"Very low-income renters are the worst off. About 8% of this group occupied severely inadequate housing in 1983, according to the study, and an additional 6% were in adequate but overcrowded housing. . . . Rents paid by low-income people have risen faster than other rents. The affordability squeeze has contributed to overcrowding and to an increasingly homeless population."

In fact, the Reagan administration has tried to scale back all three kinds of federal housing assistance—direct assistance programs, tax incentives, and support for housing finance—but has been most successful at cutting direct assistance, a move that hits low-income people hardest.